Government Regulation and the New York Stock Exchange

Remarks by

William McC. Martin, Jr.

President, New York Stock Exchange

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From the time of Peter Stuyvesant until the chartering of the first United States Bank in 1791, trading in securities, along with trading in merchandise, occurred sporadically at the foot of Wall Street. Since this market was largely a one-sided affair in which sellers were at the mercy of buyers, investors were not enthusiastic about exchanging their savings for securities which could not be readily resold. When Alexander Hamilton succeeded in consolidating and refunding the Revolutionary War Debts through the issuance of government bonds, a need for brokers, i.e., men who made a living in handling orders in securities, developed rapidly. Not long after, May 17, 1792, twenty-four brokers founded what is now the New York Stock Exchange.

The New York Stock Exchange was created to fill a logical need. For 146 years it has provided an essential mechanism facilitating the flotation of new enterprises. Beginning with the period of Federal and bank finance, through the early borrowing by the States and the successful sale of the Erie Canal bonds in the 1820's, down through the development and expansion of the railroads to the growth of the industrial corporations in the 1880's, and the amazing story of the utilities in the Twentieth Century, it has served the country well and it is hardly to be doubted that without its machinery the achievements of American industry would not have been possible. It has been the keystone in the arch of American finance and supplies concrete evidence of the superiority of an organized over an unorganized market.

The management of an unincorporated association of brokers, each with its own partnership agreement and office, was exceedingly simple in the early days. A building, a president, a secretary and a janitor sufficed. Quite naturally a club form of government developed and, with the exception of a brief period in the 1840's, the principle of executive management through men serving because of honor and prestige prevailed. In the heyday of "Rugged Individualism" and "Go West Young Man" it is safe to say that no institution in this country was any more efficiently or effectively managed.

Near the end of the Nineteenth Century fundamental changes in the scope and character of the business made their appearance. Until that time the business of the Exchange was handled directly by the members and their partners. In 1881 "branch houses" under the name and control of the parent firm were authorized to meet the needs of a growing business. When these branch offices, as they came to be called, steadily increased, and as the volume of business continued to grow, more and more employees were needed. Managers, clerks and telegraphers were simple divisions, and in the course of time bond salesmen, customers' men and traveling representatives evolved. The growth of the latter groups, whose main duties involved meeting the public, led for the first time to a definite need for supervision of personnel.

This development of offices and personnel assumed boom proportions in the period following the world war. Instead of a few offices in a few important centers and a daily trading volume of some thousand shares, the brokerage community came to comprise more than 1,700 offices covering almost the entire world; and on the eventful day of October 29, 1929, more than 16 million shares of stock changed hands. In retrospect, it is easy to perceive that an era in the history of American finance was closing.

The post-war economy had developed mass production, mass consumption, mass savings into a greedy over-expansion of business. The war had produced monetary mismanagement and State intervention in business on the widest scale in history. The normal trend of supervision over industry in highly developed countries, as evidenced in many European countries from 1880 on, was completely perverted under the duress of war from supervision to control. Our own Federal Reserve System departed from basic principles early in its history when it discounted, as a war measure, notes secured by government bonds. Out of this negation of capitalism we have reaped a whirlwind and the security markets are no exception.

Those of us who are interested in preserving the best in American life will do well to recognize these developments. Under a managed economy, toward which our people have gravitated in an effort to relieve their suffering, government regulation of security markets was as logical a development as was the early history of the New York Stock Exchange. The Securities and Exchange Commission, like the New York Stock Exchange, was set up to fill a need, to meet a popular and just demand. No careful student can fail to recognize this.

In pioneer days when land and natural resources were abundant for the man capable of enduring the hardships of travel and the rigor of work, government was a relatively incidental matter. Now that the country has become more and more populous and cities have grown to immense proportions, it becomes a matter of profound importance to thousands of families. We are rapidly becoming a fully settled nation.

The Securities and Exchange Commission was first set up after bitter opposition by brokers and, in particular, by the New York Stock Exchange. Many brokers opposed it sincerely in much the same way the bankers had previously resisted the Federal Reserve Act. There can be no legitimate criticism of this opposition in a country blessed with free speech and a democratic form of government. Nor can there be any criticism of those who sincerely sought to improve the law. Once, however, the Securities Exchange Act became law the brokerage community was faced with the necessity for full compliance. That there were some in the business unwilling to abide by the decision of Congress in any other manner than the letter of the law demanded is a reflection both on their foresight and their sportsmanship.

During the period 1934-38 it became apparent to those within the Exchange as well as to many on the outside that the administrative machinery under which the Exchange was operating was hopelessly outmoded. Efficient and effective in its day, it had become too rusty and ponderous to propel adequately an institution of the size and scope of the present-day Exchange. The very nature of the machinery caused the administration to become ingrown and self-centered. Violently as individuals here and there struggled, it was impossible to develop the attitude and perspective essential to a national public institution.

Following discussions on this subject between Mr. Charles R.

Gay, president of the Exchange, and the chairman of the Securities and Exchange Commission, Mr. Gay appointed what is now known as "The Conway Committee" to prepare a plan under which the Exchange might be reorganized. The plan thus developed resulted in the recent reorganization of the Exchange. Noteworthy in the report was the simple keynote: "The public interest is the paramount consideration." Provision was made for the appointment of three full-fledged governors to represent the public. The Exchange is extremely fortunate, as is the public, in having added to its board of governors three such outstanding men as Mr. Carle C. Conway, Mr. Robert M. Hutchins and General Robert E. Wood.

I mention the appointment of these distinguished men as public representatives on the board of governors to illustrate the evolution of the New York Stock Exchange as a public institution. Its public characteristics are indicated in many other ways, but I would like to emphasize particularly our conception of our relationship with the federal government and its agencies. The Stock Exchange welcomes government regulation and supervision. This does not mean that we have surrendered any of our independence. It does not mean that we have subordinated our own judgment or that we have relinquished our administrative control. It does not imply supine submission. It means simply that we recognize that our government, with full authority from Congress, has set up regulation in our interest and in the public's interest.

We have a joint responsibility with the government to see that the people of this country have as sane, as honest and as efficient a market as it is humanly possible to provide. The old maxim, "To govern well, govern little," will not be applied by thinking people today to our problem. We do not regard government as a necessary evil. Our government should be our greatest pride and a part of the very fabric of our lives. I might say, parenthetically, that the principal regulatory agency, the Securities and Exchange Commission, is cooperating helpfully, sympathetically and, in my judgment, wisely with the New York Stock Exchange in its effort to provide the kind of market place which the national economy requires. We have a two-way cooperation that is sensible and effective in arriving at an understanding of our problems. The Commission's representatives are sitting down with us around the table and, in a give-and-take spirit and in an atmosphere of complete harmony, we have been able to remove the irritations which once handicapped us.

There are some who find any supervision of business by government repugnant. We have no patience with that attitude. Such a viewpoint is unreal and is not likely to attract any substantial following among practical men and women. It seems to us that all those who are sincerely interested in preserving the largest measure of freedom possible, instead of reproaching us, might do well to join forces with the New York Stock Exchange in its effort to get along peaceably with our government. The Securities and Exchange Commission has, most reasonably and fairly, left to us the management of our own affairs in our own sphere to the extent that we can demonstrate our own competence, retaining for itself the residual role of supervision. That, to us, is an entirely reasonable position.

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